

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>City of Caspian</b>	County <b>Iron</b>
Audit Date <b>6/30/05</b>	Opinion Date <b>7/29/05</b>	Date Accountant Report Submitted to State: <b>8/11/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

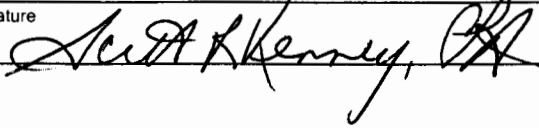
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☒ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<b>x</b>		
Reports on individual federal financial assistance programs (program audits).			<b>x</b>
Single Audit Reports (ASLGU).			<b>x</b>

Certified Public Accountant (Firm Name) <b>Scott R. Kenney, CPA</b>			
Street Address <b>1374 Commercial Ave. Ste. 1</b>		City <b>Crystal Falls</b>	State <b>MI</b>
Accountant Signature 		ZIP <b>49920</b>	Date <b>8/11/05</b>

**CITY OF CASPIAN**  
**AUDITED FINANCIAL STATEMENTS**  
**IRON COUNTY, MICHIGAN**

**Fiscal Year Ended June 30, 2005**

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# SCOTT R. KENNEY

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## INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and City Council  
City of Caspian  
Caspian, Michigan 49915

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Caspian, Michigan, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's elected officials and management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Caspian, Michigan, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note A, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments, as of June 30, 2005.

The management's discussion and analysis and budgetary comparison information on pages 5 through 9 and 34 through 37, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

Member  
American Institute of Certified Public Accountants  
Michigan Association of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Caspian, Michigan's basic financial statements. The introductory section, statistical tables and additional information section are presented for additional analysis and are not a required part of the basic financial statements. The additional information section has been subjected to auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I express no opinion on them.

  
Certified Public Accountant

July 29, 2005

**CITY OF CASPIAN**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
June 30, 2005

**Using this Annual Report**

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements.

**The City as a Whole**

The City's combined net assets increased 0.8% from a year ago - increasing from \$2.133 million to \$2.151 million. As we look at the governmental activities separately from the business-type activities, we can see that the governmental activities experienced a larger increase of approximately \$56,000 during the year (13.9% increase). This is attributed to significant repairs and enhancements to both the Ski Chalet building and the Community Center as well as a payoff of the fire truck debt during the 2004 year that were not recurring type expenses. Capital spending was limited to the purchase of a police car and some additional signs during 2005 with other expenses seeing mainly inflationary increases. The business-type activities experienced a \$38,000 decrease in net assets, primarily due to increased amounts paid to the Sewer Authority and water fund depreciation and interest costs. In a condensed format, the table below shows a comparison of the net assets (in thousands of dollars) as of the current date to the prior year:

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current Assets	\$ 544	\$ 506	\$ 136	\$ 111	\$ 680	\$ 617
Noncurrent Assets	<u>316</u>	<u>304</u>	<u>2,619</u>	<u>2,694</u>	<u>2,935</u>	<u>2,998</u>
Total Assets	\$ 860	\$ 810	\$ 2,755	\$ 2,805	\$ 3,615	\$ 3,615
Long-Term Debt Outstanding	\$ 353	\$ 347	\$ 1,047	\$ 1,063	\$ 1,400	\$ 1,410
Other Liabilities	<u>47</u>	<u>59</u>	<u>17</u>	<u>13</u>	<u>64</u>	<u>72</u>
Total Liabilities	<u>\$ 400</u>	<u>\$ 406</u>	<u>\$ 1,064</u>	<u>\$ 1,076</u>	<u>\$ 1,464</u>	<u>\$ 1,482</u>
Net Assets						
Invested in Capital Assets—Net of Debt	\$ 316	\$ 304	\$ 1,526	\$ 1,593	\$ 1,842	\$ 1,897
Restricted	101	34	46	38	147	72
Unrestricted (Deficit)	<u>43</u>	<u>73</u>	<u>119</u>	<u>98</u>	<u>162</u>	<u>164</u>
Total Net Assets	\$ 460	\$ 404	\$ 1,691	\$ 1,729	\$ 2,151	\$ 2,133

**CITY OF CASPIAN**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
June 30, 2005

Unrestricted net assets—the part of net assets that can be used to finance day to day operations, decreased by \$30,000 for the governmental activities. This represents a decrease of approximately 41.1%. The current level of unrestricted net assets for our governmental activities stands at \$43,000, or about 5.9% of expenditures.

The following table shows the changes of the net assets (in thousands of dollars) as of the current date to the prior year:

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
<b>Program Revenues</b>						
Charges for Services	\$ 76	\$ 83	\$ 286	\$ 269	\$ 362	\$ 352
Operating Grants and Contributions	87	69	3	0	90	69
Capital Grants and Contributions	60	0	0	0	60	0
<b>General Revenues</b>						
Property Taxes	\$ 242	\$ 208	\$ 0	\$ 0	\$ 242	\$ 208
State-Shared Revenues	307	274	0	0	307	274
Unrestricted Investment Earnings	8	4	2	2	10	6
Reimbursements and other	3	24	0	0	3	24
Sale of land	2	3	0	0	2	3
Transfers and Other Revenue	<u>0</u>	<u>10</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>10</u>
<b>Total Revenues</b>	<b>\$ 785</b>	<b>\$ 675</b>	<b>\$ 291</b>	<b>\$ 271</b>	<b>\$1,076</b>	<b>\$ 946</b>
<b>Program Expenses</b>						
General Government	\$ 133	\$ 167	\$ 0	\$ 0	\$ 133	\$ 167
Public Safety	90	87	0	0	90	87
Public Works	352	329	0	0	352	329
Employee benefits	117	131	0	0	117	131
Insurance	23	18	0	0	23	18
Recreation & Culture	9	17	0	0	9	17
Interest on Long-Term Debt	6	9	0	0	6	9
Water & Sewer	<u>0</u>	<u>0</u>	<u>328</u>	<u>383</u>	<u>328</u>	<u>383</u>
<b>Total Expenses</b>	<b>\$ 730</b>	<b>\$ 759</b>	<b>\$ 328</b>	<b>\$ 383</b>	<b>\$1,058</b>	<b>\$ 1,141</b>
<b>Change in Net Assets</b>	<b>\$ 55</b>	<b>\$ ( 84)</b>	<b>\$ ( 37)</b>	<b>\$ ( 112)</b>	<b>\$ 18</b>	<b>\$ ( 196)</b>

CITY OF CASPIAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2005

The City's net assets continue to remain healthy. The control of costs by the City during the past year has allowed the City to pursue additional grants while still bettering its financial position.

Governmental Activities

The City's total governmental revenues increased by approximately \$110,000 due to the receipt of a grant for the purchase of an ice machine of \$60,000 and an increase in state shared revenues.

Cash expenditures decreased by slightly more than \$55,000 during the year. This was due to the prior year payoff of the fire truck loan and limited capital spending in the 2005 year.

Business-Type Activities

The City's business-type activities consist of the Water and Sewer Funds. The City provides water to residents, which comes from the City's own water system. The City also provides sewage treatment to residents, through the West Iron County Sewage Authority. During 2005, the City increased its base charges for sewer services by \$3 per month for each residential customer. This resulted in an increase in sewer fund revenues. In addition, the City Council has approved sewer rate increases of 4%, 5% and 6% effective October 1, 2005, 2006 and 2007, respectively. The expenses in the Water Fund continued to decrease during 2005. The Sewer Fund rate increase resulted in a lowering of the net operating loss by approximately \$24,000. The City will continue to closely monitor the rates in the utility funds and adjust them as appropriate.

The City's Funds

Analysis of the City's major funds begins on page 12, following the entity-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as a special property tax millage. The City's major funds for 2005 include the General Fund, Major Street Fund, Local Street Fund, Tax Incremental Financing Fund, Water Fund and Sewer Fund.

The General Fund pays for most of the City's governmental services. The most significant are general maintenance of city property and building, maintaining the City's equipment, police and fire services and general administration. These services are primarily funded from property taxes assessed to the residents of the City and revenues shared with the State of Michigan.

General Fund Budgetary Highlights

Over the course of the year, the City Board did amend its budget. The most significant variations during the 2005 year occurred with an increase in property tax revenues and larger than expected



CITY OF CASPIAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2005

state shared revenues. Both revenues and expenditures exceeded budgeted amounts with the largest expenditure variance being in the Major and Local Street Winter Maintenance functions. This can be directly attributed to the snowfall levels experienced during 2005.

Capital Asset and Debt Administration

At the end of 2004, the City had more than \$2,850,000 invested in a broad range of capital assets, including snow removal equipment, police and fire equipment, and water and sewer lines. In addition, the City has invested significantly in roads and buildings within the City. The cost value of the roads and buildings acquired prior to July 1, 2003, are not required to be reported in the City's financial statements under accounting principles generally accepted in the United States of America. Consequently, the cost of the roads and buildings acquired prior to the 2003-2004 fiscal year are not included in these financial statements.

Economic Factors and Next Year's Budgets and Rates

The City's budget for 2005-2006 calls for a freeze on property tax rates. This can be accomplished because of the controls that are being placed on governmental fund expenditures. Because of the impact of Proposal A, however, the City needs to continue to watch its budget very closely. The state-wide tax reform act limits growth in taxable value on any individual property to the lesser of inflation or 5%. Because some properties increase in value by less than the inflationary rate, the mathematical result of this is that the total taxable value for the City will grow at a rate less than inflation, before considering new property additions.

As discussed above, we anticipate that the sewer rates will again have to be increased in 2005-2006 to maintain adequate cash flows within the fund. The City is in the process of evaluating the amount of increase that will be needed and will likely discuss the matter at a City Council Meeting early in the forthcoming fiscal year.

Contacting the City's Management

This financial report is intended to provide the citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the manager's office.

FINANCIAL  
STATEMENTS

CITY OF CASPIAN  
GOVERNMENT WIDE STATEMENT OF NET ASSETS  
June 30, 2005

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and equivalents	\$ 421,840	\$ 103,884	\$ 525,724
Receivables - net	115,219	32,610	147,829
Prepaid expenses	<u>6,813</u>	<u>0</u>	<u>6,813</u>
<b>TOTAL CURRENT ASSETS</b>	<b>\$ 543,872</b>	<b>\$ 136,494</b>	<b>\$ 680,366</b>
<b>RESTRICTED ASSETS - Cash and equivalents</b>	<b>\$ 0</b>	<b>\$ 80,825</b>	<b>\$ 80,825</b>
<b>NON-CURRENT ASSETS</b>			
Property and equipment, net of depreciation	\$ <u>316,064</u>	\$ <u>2,538,426</u>	\$ <u>2,854,490</u>
<b>TOTAL ASSETS</b>	<b>\$ 859,936</b>	<b>\$ 2,755,745</b>	<b>\$ 3,615,681</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable	\$ 15,099	\$ 16,747	\$ 31,846
Accrued and other liabilities	32,061	450	32,511
Current part of non-current liabilities	<u>0</u>	<u>0</u>	<u>0</u>
<b>TOTAL CURRENT LIABILITIES</b>	<b>\$ 47,160</b>	<b>\$ 17,197</b>	<b>\$ 64,357</b>
<b>LIABILITIES PAYABLE FROM RESTRICTED ASSETS</b>	<b>\$ 0</b>	<b>\$ 35,275</b>	<b>\$ 35,275</b>
<b>NON-CURRENT LIABILITIES</b>			
Compensated absences	\$ 31,834	\$ 0	\$ 31,834
Loan payable	105,678	0	105,678
Revenue bonds payable	0	1,012,000	1,012,000
Unfunded accrued actuarial pension liability	<u>215,404</u>	<u>0</u>	<u>215,404</u>
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>\$ 352,916</b>	<b>\$ 1,012,000</b>	<b>\$ 1,364,916</b>
<b>TOTAL LIABILITIES</b>	<b>\$ 400,076</b>	<b>\$ 1,064,472</b>	<b>\$ 1,464,548</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	\$ 316,064	\$ 1,526,426	\$ 1,842,490
Restricted for			
Capital projects	88,137	0	88,137
Health insurance	6,813	0	6,813
Debt service	6,752	45,550	52,302
Unrestricted	<u>42,094</u>	<u>119,297</u>	<u>161,391</u>
<b>TOTAL NET ASSETS</b>	<b>\$ 459,860</b>	<b>\$ 1,691,273</b>	<b>\$ 2,151,133</b>

The Notes to Financial Statements are an integral part of this statement.

**CITY OF CASPIAN**  
**GOVERNMENT WIDE STATEMENT OF ACTIVITIES**  
Year ended June 30, 2005

FUNCTIONS/PROGRAMS	PROGRAM REVENUES			CAPITAL GRANTS AND CONTRIBUTIONS	NET REVENUE (EXPENSE) AND CHANGES IN NET ASSETS		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS		GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Governmental Activities							
General government	\$ 132,510	\$ 0	\$ 12,658	\$ 0	\$ (119,852)	\$	\$ (119,852)
Public safety	89,415	515	0	0	(88,900)		(88,900)
Public works	351,999	75,768	74,664	0	(201,567)		(201,567)
Employee benefits	117,434	0	0	0	(117,434)		(117,434)
Insurance	23,217	0	0	0	(23,217)		(23,217)
Recreation and culture	9,279	0	0	60,000	50,721		50,721
Interest on long-term debt	6,145	0	0	0	(6,145)		(6,145)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>\$ 730,000</b>	<b>\$ 76,283</b>	<b>\$ 87,322</b>	<b>\$ 60,000</b>	<b>\$ (506,395)</b>	<b>\$</b>	<b>\$ (506,395)</b>
Business-Type Activities							
Water	\$ 190,710	\$ 150,869	\$ 3,625	\$ 0	\$	\$ (36,216)	\$ (36,216)
Sewer	137,648	134,629	0	0		(3,019)	(3,019)
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<b>\$ 328,358</b>	<b>\$ 285,498</b>	<b>\$ 3,625</b>	<b>\$ 0</b>	<b>\$</b>	<b>\$ (39,235)</b>	<b>\$ (39,235)</b>
<b>TOTAL GOVERNMENT</b>	<b>\$ 1,058,358</b>	<b>\$ 361,781</b>	<b>\$ 90,947</b>	<b>\$ 60,000</b>	<b>\$ (506,395)</b>	<b>\$ (39,235)</b>	<b>\$ (545,630)</b>
GENERAL REVENUES							
Property taxes					\$ 241,543	\$ 0	\$ 241,543
State shared revenues and grants					307,181	0	307,181
Unrestricted investments earnings					8,825	2,039	10,864
Reimbursements					1,767	0	1,767
Other					1,319	0	1,319
<b>SPECIAL ITEM - Sale of land</b>					<b>1,550</b>	<b>0</b>	<b>1,550</b>
<b>TOTAL GENERAL REVENUES AND SPECIAL ITEMS</b>					<b>\$ 562,185</b>	<b>\$ 2,039</b>	<b>\$ 564,224</b>
CHANGE IN NET ASSETS							
Net assets - beginning					\$ 55,790	\$ (37,196)	\$ 18,594
					404,070	1,728,469	2,132,539
<b>NET ASSETS - ENDING</b>					<b>\$ 459,860</b>	<b>\$ 1,691,273</b>	<b>\$ 2,151,133</b>

The Notes to Financial Statements are an integral part of this statement.

CITY OF CASPIAN  
GOVERNMENTAL FUNDS BALANCE SHEET  
COMBINED BALANCE SHEET  
June 30, 2005

	ASSETS				LIABILITIES		FUND BALANCES	
	GENERAL FUND	MAJOR STREET FUND	LOCAL STREET FUND	TAX INCREMENTAL FINANCING FUND	TOTAL GOVERNMENTAL FUNDS			
Cash and equivalents	\$ 328,068	\$ 6,055	\$ 8,540	\$ 79,177	\$ 421,840			
Taxes receivable - net	1,666	0	0	0	1,666			
Accounts receivable	8,114	0	0	0	8,114			
Due from other funds	30,149	0	0	0	30,149			
Due from other governmental units	43,100	15,961	7,063	0	66,124			
Prepaid expenses	6,813	0	0	0	6,813			
<b>TOTAL ASSETS</b>	<b>\$ 417,910</b>	<b>\$ 22,016</b>	<b>\$ 15,603</b>	<b>\$ 79,177</b>	<b>\$ 534,706</b>			
Accounts payable	\$ 15,099	\$ 0	\$ 0	\$ 0	\$ 15,099			
Accrued payroll expense	2,773	141	141	0	3,055			
Due to other funds	0	0	0	29,006	29,006			
Due to other governmental units	0	0	0	0	0			
<b>TOTAL LIABILITIES</b>	<b>\$ 17,872</b>	<b>\$ 141</b>	<b>\$ 141</b>	<b>\$ 29,006</b>	<b>\$ 47,160</b>			
Reserved for								
Capital projects	\$ 88,137	\$ 0	\$ 0	\$ 0	\$ 88,137			
Health insurance	6,813	0	0	0	6,813			
Unreserved	305,088	21,875	15,462	50,171	392,596			
<b>TOTAL FUND EQUITY</b>	<b>\$ 400,038</b>	<b>\$ 21,875</b>	<b>\$ 15,462</b>	<b>\$ 50,171</b>	<b>\$ 487,546</b>			
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 417,910</b>	<b>\$ 22,016</b>	<b>\$ 15,603</b>	<b>\$ 79,177</b>	<b>\$ 534,706</b>			

The Notes to Financial Statements are an integral part of this statement.

CITY OF CASPIAN  
RECONCILIATION OF BALANCE SHEET OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS  
June 30, 2005

Total fund balance - total governmental funds	\$ 487,546
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Long term accounts receivable - Caspian-Gaastra Fire Department	9,166
Capital assets used in governmental activities are not financial resources and are not reported in the funds	316,064
Long term liabilities:	
Loan not due and payable within the current period and not reported in the funds	(105,678)
Accumulated employee vacation and personal pay not used in current period	(31,834)
Unfunded accrued actuarial pension liability not payable in the current period	<u>(215,404)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES \$	<u><u>459,860</u></u>

**CITY OF CASPIAN**  
**GOVERNMENTAL FUNDS STATEMENT OF REVENUE,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCE**  
Year ended June 30, 2005

REVENUES	GENERAL FUND	MAJOR STREET FUND	LOCAL STREET FUND	TAX INCREMENTAL FINANCING FUND	TOTAL GOVERNMENTAL FUNDS
Property taxes	\$ 196,970	\$ 0	\$ 0	\$ 44,573	\$ 241,543
State shared revenues and grants	168,542	99,048	39,841	0	307,431
Fines and forfeitures	265	0	0	0	265
Charges for services	75,768	0	0	0	75,768
Local grant	60,000	0	0	0	60,000
Interest and rentals	95,319	585	200	43	96,147
Sale of property	1,550	0	0	0	1,550
Reimbursements	1,767	0	0	0	1,767
Other	1,319	0	0	0	1,319
<b>TOTAL REVENUES</b>	<b>\$ 601,500</b>	<b>\$ 99,633</b>	<b>\$ 40,041</b>	<b>\$ 44,616</b>	<b>\$ 785,790</b>
<b>EXPENDITURES</b>					
Current					
General government	\$ 131,413	\$ 0	\$ 0	\$ 0	\$ 131,413
Public safety	75,878	0	0	0	75,878
Public works	163,523	113,029	62,051	0	338,603
Recreation	9,279	0	0	0	9,279
Employee benefits	108,303	0	0	0	108,303
Insurance	23,217	0	0	0	23,217
Capital outlay	19,089	0	0	0	19,089
Debt service	0	0	0	20,757	20,757
				10,257	10,257
<b>TOTAL EXPENDITURES</b>	<b>\$ 530,702</b>	<b>\$ 113,029</b>	<b>\$ 62,051</b>	<b>\$ 31,014</b>	<b>\$ 736,796</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>\$ 70,798</b>	<b>\$ (13,396)</b>	<b>\$ (22,010)</b>	<b>\$ 13,602</b>	<b>\$ 48,994</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	\$ 0	\$ 0	\$ 20,100	\$ 0	\$ 20,100
Transfers (out)	0	(20,100)	0	0	(20,100)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>\$ 0</b>	<b>\$ (20,100)</b>	<b>\$ 20,100</b>	<b>\$ 0</b>	<b>\$ 0</b>
<b>EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<b>\$ 70,798</b>	<b>\$ (33,496)</b>	<b>\$ (1,910)</b>	<b>\$ 13,602</b>	<b>\$ 48,994</b>
Fund balance - beginning	329,240	55,371	17,372	36,569	438,552
<b>FUND BALANCE - JUNE 30</b>	<b>\$ 400,038</b>	<b>\$ 21,875</b>	<b>\$ 15,462</b>	<b>\$ 50,171</b>	<b>\$ 487,546</b>

The Notes to Financial Statements are an integral part of this statement.

CITY OF CASPIAN  
RECONCILIATION OF STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCE  
TO THE STATEMENT OF ACTIVITIES  
Year ended June 30, 2005

Net change in fund balance - total governmental funds	\$ 48,994
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures; in the Statement of Activities these costs are allocated over their estimated useful life and reported as depreciation.	11,815
Repayments of loan principal is an expenditure in the governmental funds but not in the Statement of Activities (where it reduces long-term debt).	4,112
Increases in accumulated employee vacation and personal pay are recorded when earned in the Statement of Activities.	(4,776)
Increase in unfunded accrued actuarial pension liability not requiring the use of current financial resources	<u>(4,355)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$	<u><u>55,790</u></u>



**CITY OF CASPIAN**  
**PROPRIETARY FUNDS STATEMENT OF NET ASSETS**  
June 30, 2005

		<u>WATER UTILITY</u>	<u>SEWER UTILITY</u>	<u>TOTAL</u>
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and equivalents	\$	95,385	\$ 8,499	\$ 103,884
Accounts receivable		<u>17,525</u>	<u>15,085</u>	<u>32,610</u>
<b>TOTAL CURRENT ASSETS</b>	<b>\$</b>	<b>112,910</b>	<b>\$ 23,584</b>	<b>\$ 136,494</b>
<b>Noncurrent Assets</b>				
Restricted cash and equivalents	\$	80,825	\$ 0	\$ 80,825
Capital assets		<u>2,538,426</u>	<u>0</u>	<u>2,538,426</u>
<b>TOTAL NONCURRENT ASSETS</b>	<b>\$</b>	<b>2,619,251</b>	<b>\$ 0</b>	<b>\$ 2,619,251</b>
<b>TOTAL ASSETS</b>	<b>\$</b>	<b><u>2,732,161</u></b>	<b>\$ <u>23,584</u></b>	<b>\$ <u>2,755,745</u></b>
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Accounts payable	\$	8	\$ 16,739	\$ 16,747
Accrued payroll expenses		<u>357</u>	<u>93</u>	<u>450</u>
<b>TOTAL CURRENT LIABILITIES</b>	<b>\$</b>	<b>365</b>	<b>\$ 16,832</b>	<b>\$ 17,197</b>
<b>Noncurrent Liabilities</b>				
Current liabilities payable from restricted assets	\$	35,275	\$ 0	\$ 35,275
Revenue bonds payable		<u>1,012,000</u>	<u>0</u>	<u>1,012,000</u>
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>\$</b>	<b>1,047,275</b>	<b>\$ 0</b>	<b>\$ 1,047,275</b>
<b>TOTAL LIABILITIES</b>	<b>\$</b>	<b><u>1,047,640</u></b>	<b>\$ <u>16,832</u></b>	<b>\$ <u>1,064,472</u></b>
<b>NET ASSETS</b>				
Invested in capital assets-net of related debt	\$	1,526,426	\$ 0	\$ 1,526,426
Restricted from debt service		45,550	0	45,550
Unrestricted		<u>112,545</u>	<u>6,752</u>	<u>119,297</u>
<b>TOTAL NET ASSETS</b>	<b>\$</b>	<b><u>1,684,521</u></b>	<b>\$ <u>6,752</u></b>	<b>\$ <u>1,691,273</u></b>

The Notes to Financial Statements are an integral part of this statement.

CITY OF CASPIAN  
**PROPRIETARY FUNDS STATEMENT OF REVENUES,  
EXPENSES AND CHANGES IN NET ASSETS**  
Year ended June 30, 2005

	<u>WATER UTILITY</u>	<u>SEWER UTILITY</u>	<u>TOTAL</u>
<b>OPERATING REVENUES</b>			
Metered sales	\$ 148,860	\$ 132,705	\$ 281,565
Water taps and other services	2,009	1,924	3,933
State grants	<u>3,625</u>	<u>0</u>	<u>3,625</u>
<b>TOTAL OPERATING REVENUES</b>	<b>\$ 154,494</b>	<b>\$ 134,629</b>	<b>\$ 289,123</b>
<b>OPERATING EXPENSES</b>			
Personal services	\$ 20,630	\$ 10,067	\$ 30,697
Employee benefits	17,308	7,906	25,214
Supplies	4,041	271	4,312
Purchased services	8,007	118,080	126,087
Equipment rental	888	1,324	2,212
Utilities	5,786	0	5,786
Other	777	0	777
Depreciation	<u>86,593</u>	<u>0</u>	<u>86,593</u>
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ <u>144,030</u></b>	<b>\$ <u>137,648</u></b>	<b>\$ <u>281,678</u></b>
<b>OPERATING INCOME (LOSS)</b>	<b>\$ 10,464</b>	<b>\$ (3,019)</b>	<b>\$ 7,445</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest earned	\$ 2,039	\$ 0	\$ 2,039
Interest expense	<u>(46,680)</u>	<u>0</u>	<u>(46,680)</u>
<b>TOTAL NONOPERATING REVENUE (EXPENSE)</b>	<b>\$ <u>(44,641)</u></b>	<b>\$ <u>0</u></b>	<b>\$ <u>(44,641)</u></b>
<b>NET INCOME (LOSS)</b>	<b>\$ (34,177)</b>	<b>\$ (3,019)</b>	<b>\$ (37,196)</b>
Total net assets - beginning	<u>1,718,698</u>	<u>9,771</u>	<u>1,728,469</u>
<b>TOTAL NET ASSETS - ENDING</b>	<b>\$ <u><u>1,684,521</u></u></b>	<b>\$ <u><u>6,752</u></u></b>	<b>\$ <u><u>1,691,273</u></u></b>

The Notes to Financial Statements are an integral part of this statement.

CITY OF CASPIAN  
**PROPRIETARY FUNDS STATEMENT OF CASH FLOW**  
Year ended June 30, 2005

	WATER UTILITY	SEWER UTILITY	TOTAL
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 154,912	\$ 134,821	\$ 289,733
Operating grants received	3,625	0	3,625
Payments to suppliers	(23,636)	(111,269)	(134,905)
Payments to or on behalf of employees	<u>(37,882)</u>	<u>(17,941)</u>	<u>(55,823)</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>\$ 97,019</b>	<b>\$ 5,611</b>	<b>\$ 102,630</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Principal and interest paid on capital debt	\$ (62,980)	\$ 0	\$ (62,980)
Purchases of capital assets	(4,311)	0	(4,311)
Funding of restricted accounts	<u>(7,127)</u>	<u>0</u>	<u>(7,127)</u>
<b>TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING</b>	<b>\$ (74,418)</b>	<b>\$ 0</b>	<b>\$ (74,418)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest earned	\$ <u>2,039</u>	\$ <u>0</u>	\$ <u>2,039</u>
<b>NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS</b>	<b>\$ 24,640</b>	<b>\$ 5,611</b>	<b>\$ 30,251</b>
Cash and equivalents - beginning	<u>70,745</u>	<u>2,888</u>	<u>73,633</u>
<b>CASH AND EQUIVALENTS - ENDING</b>	<b>\$ <u>95,385</u></b>	<b>\$ <u>8,499</u></b>	<b>\$ <u>103,884</u></b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>			
Operating income (loss)	\$ 10,464	\$ (3,019)	\$ 7,445
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities			
Depreciation	86,593	0	86,593
Change in Assets and Liabilities			
Receivables - net	4,043	192	4,235
Accounts payable	(4,137)	8,406	4,269
Accrued payroll expense	<u>56</u>	<u>32</u>	<u>88</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ <u>97,019</u></b>	<b>\$ <u>5,611</u></b>	<b>\$ <u>102,630</u></b>

The Notes to Financial Statements are an integral part of this statement.

CITY OF CASPIAN  
FIDUCIARY FUNDS - STATEMENT OF NET ASSETS  
June 30, 2005

		<u>AGENCY FUND TYPE</u> <u>(Tax Collections)</u>
<b>ASSETS</b>		
Cash and equivalents	\$	1,143
Due from other funds		9,871
Due from other governmental units		<u>0</u>
<b>TOTAL ASSETS</b>	<b>\$</b>	<b><u><u>11,014</u></u></b>
<b>LIABILITIES</b>		
Due to other funds	\$	11,014
Due to other governmental units		<u>0</u>
<b>TOTAL LIABILITIES</b>	<b>\$</b>	<b><u><u>11,014</u></u></b>

The Notes to Financial Statements are an integral part of this statement.

CITY OF CASPIAN  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005

**NOTE A-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the City of Caspian (City) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

**I. Reporting Entity**

The City is governed by an elected five member council (Council). The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the government's operations.

The City does not have any component units that are blended or discretely presented.

**Jointly Governed Organizations--**

**Caspian-Gaastra Fire Authority**

The Cities of Caspian and Gaastra participate jointly in the operation of the Caspian-Gaastra Fire Authority. Each city appoints two board members to the fire authority's governing board with the governing board appointing a fifth member. All of the financial operations of the Authority are recorded in a separate set of financial records and are available at the City of Gaastra offices.

The funding formula approved by the members of the Local Units is based pro rata on each unit's population. The City's contribution to the Fire Authority for the audit period was \$17,854 from its general fund for operations and \$10,257 from its Tax Incremental Financing Fund for debt retirement.

**West Iron County Sewage Authority**

The City is one of five municipalities participating jointly in the Sewage Authority. All of the financial operations of the Authority are recorded in a separate set of financial records and are available at the Sewage Authority Offices.

The funding formula approved by the members of the Local Units is based pro rata on each unit's population. The City's contribution to the Sewage Authority for the audit period was \$ 105,462.

CITY OF CASPIAN  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**II. Government-Wide and Fund Financial Statements**

The government-wide statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**III. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated

CITY OF CASPIAN  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**III. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)**

absences, and claims and judgments are recorded only when payment is due.

**Taxes Receivable—Current Property Taxes**

The City property tax is levied on each July 1<sup>st</sup> on the taxable valuation of property (as defined by State statutes) located in the City as of the preceding December 31<sup>st</sup>.

The City's 2004 ad valorem tax is levied and collectible on July 1, 2004. It is the City's policy to recognize revenue from the current tax levy when the tax is levied for real property and when collected for personal property as the amounts are then "available" for the financing of operations. "Available" means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2004 taxable valuation of the City totaled \$10.485 million, on which ad valorem taxes levied consisted of 19.747 mills for the City operating purposes, raising \$183,000 for financing operations. This amount is recognized in the General Fund financial statements as property taxes.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on Major Streets.

The Local Street Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on Local Streets.

The Tax Incremental Financing Fund accounts for the taxes collected that are restricted for use in the Tax Incremental Financing District and the payment of obligated loans.

CITY OF CASPIAN  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**III. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)**

The government reports the following major proprietary funds:

The Water Fund accounts for the activities of the water distribution system.

The Sewer Fund accounts for the activities of the sewer collection system.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected to also follow private-sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's proprietary funds relate to charges to customers for sales and services. The water and sewer funds also recognize the portion of the fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.



CITY OF CASPIAN  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**IV. Assets, Liabilities, and Net Assets or Equity (Continued)**

Bank Deposits and Investments— Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of six months or less when acquired. Investments are stated at fair value.

Receivables and Payables— In general, outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “due to/from other funds.”

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each July 1<sup>st</sup> on the taxable valuation of property as of the preceding December 31<sup>st</sup>. Taxes are considered delinquent on March 1<sup>st</sup> of the following year, at which time penalties and interest are assessed.

Inventories and Prepaid Items— Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets— The revenue bonds of the enterprise funds require amounts to be set aside for construction, debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets.

Capital Assets— Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The infrastructure assets acquired prior to July 1, 2003, have been excluded from the financial statements in compliance with Governmental Accounting Standards Board Statement No. 34. The value of future acquisitions of infrastructure assets will be capitalized and depreciated.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

**CITY OF CASPIAN**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2005

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**IV. Assets, Liabilities, and Net Assets or Equity (Continued)**

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building Improvements	15 to 30 years
Water and Sewer Lines	40 to 60 years
Roads	10 to 30 years
Other Infrastructure	10 to 40 years
Vehicles	3 to 5 years
Office Equipment	5 to 7 years
Computer Equipment	3 to 7 years

Compensated Absences (Vacation, Personal and Sick Leave)— It is the government’s policy to permit employees to accumulate earned but unused vacation, personal and sick pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amount when employees separate from service with the government. All vacation and personal leave pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year-end.

Long-Term Obligations— In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity— In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

CITY OF CASPIAN  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**IV. Assets, Liabilities, and Net Assets or Equity (Continued)**

Comparative Data/Reclassifications— Comparative total data for the prior year have been presented only for individual enterprise funds in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

**NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Budgetary Information— Annual budgets are adopted on a cash basis. All annual appropriations lapse at fiscal year end. The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. (i.e., The level at which expenditures may not legally exceed appropriations.)

Excess of Expenditures Over Appropriations in Budgeted Funds— During the year, the City incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated, as follows:

Budget Item	Budget Appropriation	Actual Expenditure
General - City Council	\$ 2,084	\$ 2,631
General - City Manager	20,000	29,834
General - Treasurer	11,000	18,627
General - Tax Administration	4,900	6,512
General - Elections	1,500	2,729
General - Audit	7,000	7,909
General - Building and Grounds	27,000	38,008
General - Police	59,159	77,113
General - Public Works	66,000	92,392
General - Refuse	55,000	59,760
General - Parks and other	6,000	8,779
General - Paid Time Off	11,936	21,004
General - Insurance	18,500	23,217
Major Streets - Routine maintenance	31,500	47,179
Major Streets - Street Sweeping	100	1,449
Major Streets - Roadside Maintenance	0	1,183

**CITY OF CASPIAN**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2005

**NOTE B-STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)**

**Excess of Expenditures Over Appropriations in Budgeted Funds (Continued)**

Budget Item	Budget Appropriation	Actual Expenditure
Major Streets - Traffic Services	\$ 0	\$ 1,200
Major Streets - Winter Maintenance	7,377	55,358
Major Streets - Administration	4,615	5,459
Major Streets - Transfers	0	20,100
Local Streets - Street Sweeping	900	2,181
Local Streets - Roadside Maintenance	0	1,060
Local Streets - Traffic Services	200	1,711
Local Streets - Winter Maintenance	9,320	16,430
Local Streets - Administration	1,000	3,663
Tax Incremental Financing - Debt Service	0	10,257

**Fund Deficits**– The Local Governmental Unit has no accumulated fund balance/retained earning deficits.

**NOTE C-DEPOSITS AND INVESTMENTS**

Michigan Compiled Laws, Section 129.91, authorizes the local governmental unit to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The City is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government of federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after date of purchase; obligations of the State of Michigan or its political subdivision which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Council had designated three banks for the deposit of City funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 had authorized investment in bonds and securities of the United States government and its agencies and bank time deposit accounts but not the remainder of State statutory authority as listed above. The City's deposits and investment policy are in accordance with statutory authority.

**CITY OF CASPIAN**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2005

**NOTE C—DEPOSITS AND INVESTMENTS (CONTINUED)**

At year-end, the Local Unit's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-Type Activities	Fiduciary Funds	Total Primary Government
Cash & Cash Equivalents	\$ 421,840	\$ 103,884	\$ 1,143	\$ 526,867
Restricted Assets	0	80,825	0	80,825
Total	<u>\$ 421,840</u>	<u>\$ 184,709</u>	<u>\$ 1,143</u>	<u>\$ 607,692</u>

All of the cash and equivalents have been placed in bank accounts at the various approved financial institutions. The bank balance is \$607,692 of which \$271,244 is covered by federal depository insurance.

**NOTE D— RECEIVABLES**

Receivables as of year-end for the government's individual major and nonmajor funds, and the fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Major Street Fund	Local Street Fund	Tax Incremental Financing Fund	Water Fund	Sewer Fund	Total
Taxes receivable	1,727	0	0	0	0	0	1,727
Accounts receivable	8,114	0	0	0	17,525	15,085	40,724
Due from other funds	30,149	0	0	0	0	0	30,149
Due from other governmental units	<u>43,100</u>	<u>15,961</u>	<u>7,063</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>66,124</u>
Gross Receivables	83,090	15,961	7,063	0	17,525	15,085	138,724
Less: Allowance for Uncollectibles	<u>(61)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(61)</u>
Net Receivables	<u>83,029</u>	<u>15,961</u>	<u>7,063</u>	<u>0</u>	<u>17,525</u>	<u>15,085</u>	<u>138,663</u>

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned.

**CITY OF CASPIAN**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2005

**NOTE E-- CAPITAL ASSETS**

Capital asset activity of the primary government for the current year was as follows:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Capital Assets Being Depreciated</b>				
Buildings	\$ 139,219	\$ 10,757	\$ 0	\$ 149,976
Improvements Other Than Buildings	1,729	0	0	1,729
Machinery and Equipment	187,500	29,089	0	216,589
Infrastructure	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Subtotal	\$ 328,448	\$ <u>39,846</u>	\$ <u>0</u>	\$ 368,294
<b>Less Accumulated Depreciation for</b>				
Buildings	\$ 3,594	\$ 3,892	\$ 0	\$ 7,486
Improvements Other Than Buildings	86	711	0	797
Machinery and Equipment	20,519	23,428	0	43,947
Infrastructure	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Subtotal	\$ <u>24,199</u>	\$ <u>28,031</u>	\$ <u>0</u>	\$ <u>52,230</u>
<b>Governmental Activities Capital Total</b>				
Capital Assets--Net of Depreciation	\$ <u>304,249</u>			\$ <u>316,064</u>
<b>Business-Type Activities</b>				
<b>Capital Assets Being Depreciated</b>				
Buildings	\$ 0	\$ 0	\$ 0	\$ 0
Improvements Other Than Buildings	0	0	0	0
Machinery and Equipment	42,078	4,312	0	46,390
Infrastructure	<u>3,213,056</u>	<u>0</u>	<u>0</u>	<u>3,213,056</u>
Subtotal	\$ 3,255,134	\$ <u>4,312</u>	\$ <u>0</u>	\$ 3,259,446
<b>Less Accumulated Depreciation for</b>				
Buildings	\$ 0	\$ 0	\$ 0	\$ 0
Improvements Other Than Buildings	0	0	0	0
Machinery and Equipment	31,359	5,038	0	36,397
Infrastructure	<u>603,069</u>	<u>81,554</u>	<u>0</u>	<u>684,623</u>
Subtotal	\$ <u>634,428</u>	\$ <u>86,592</u>	\$ <u>0</u>	\$ <u>721,020</u>
<b>Governmental Activities Capital Total</b>				
Capital Assets--Net of Depreciation	\$ <u>2,620,706</u>			\$ <u>2,538,426</u>

CITY OF CASPIAN  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005

**NOTE E-- CAPITAL ASSETS (CONTINUED)**

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities		
General Government	\$	1,097
Public Safety		13,396
Public Works		<u>13,537</u>
Total Governmental Activities	\$	<u>28,030</u>
Business-Type Activities		
Water	\$	86,593
Sewer		<u>0</u>
Total Business-Type Activities	\$	<u>86,593</u>

**NOTE F--INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Due To/From Other Funds		
General	Tax Incremental Financing	\$ 19,135
General	Tax Collection	11,014
Tax Collection	Tax Incremental Financing	<u>9,871</u>
Total		\$ <u>40,020</u>

**NOTE G--RISK MANAGEMENT**

The City is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (worker's compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

**CITY OF CASPIAN**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2005

**NOTE H-- LONG TERM DEBT**

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Bond and contractual obligation activity can be summarized as follows:

	<u>Interest Rate</u>	<u>Principal Matures</u>	<u>Beginning Balance</u>	<u>Additions (Reductions)</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental-Type Activities</b>						
General Obligation Bonds						
1993 Fire Hall Bonds	5.75%	10-Apr-21	\$ <u>109,790</u>	\$ <u>(4,112)</u>	\$ <u>105,678</u>	\$ <u>6,050</u>
Total Governmental-Type Activities			\$ <u>109,790</u>	\$ <u>(4,112)</u>	\$ <u>105,678</u>	\$ <u>6,050</u>
<b>Business-Type Activities</b>						
Revenue Bonds						
1995 Water System Bonds	4.50%	01-Feb-35	\$ <u>1,044,000</u>	\$ <u>(16,000)</u>	\$ <u>1,028,000</u>	\$ <u>16,000</u>
Total Business-Type Activities			\$ <u>1,044,000</u>	\$ <u>(16,000)</u>	\$ <u>1,028,000</u>	\$ <u>16,000</u>

Annual debt service requirements to maturity for the above obligations are as follows:

Year End June 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2006 \$	4,207	\$ 6,050	\$ 16,000	\$ 46,260
2007	4,459	5,798	18,000	45,540
2008	4,710	5,547	18,000	44,730
2009	5,008	5,249	20,000	43,920
2010	5,307	4,949	20,000	43,020
2011-2015	31,689	19,595	118,000	200,430
2016-2020	42,386	8,898	142,000	171,720
2021-2025	7,912	204	168,000	137,430
2026-2030	0	0	206,000	96,795
2031-2035	<u>0</u>	<u>0</u>	<u>302,000</u>	<u>43,650</u>
Totals \$	<u>105,678</u>	\$ <u>56,290</u>	\$ <u>1,028,000</u>	\$ <u>873,495</u>



CITY OF CASPIAN  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005

**NOTE I - PENSION PLAN**

**MUNICIPAL EMPLOYEES RETIREMENT SYSTEM**

**PLAN DESCRIPTION**

On June 1, 1968 the City adopted employees' Pension Plan C of the state administered Municipal Employees' Retirement System for all eligible employees and subsequently elected participation pursuant to Benefits Schedule E. The plan is a state administered agent multiple-employer pension plan. Normal retirement benefits are paid to employees retiring at age 60 with 10 or more years of service.

**ACTUARIAL ACCRUED LIABILITY**

The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 31, 2004.

**GASB 25 INFORMATION**

**Actuarial Accrued Liability:**

Retirees and beneficiaries currently receiving benefits	\$ 255,158
Terminated employees not yet receiving benefits	24,583
Non-vested terminated employees (refund of contribution)	0
Current employees:	
Accumulated employee contributions including allocated investment income	0
Employer financed	<u>400,374</u>
 TOTAL ACTUARIAL ACCRUED LIABILITY	 \$ 680,115
 Net Assets Available for benefits, at actuarial value	 <u>464,771</u>
 UNFUNDED ACTUARIAL ACCRUED LIABILITY	 \$ 215,404 <u><u>          </u></u>

**GASB 27 INFORMATION**

Fiscal year beginning	July 1, 2006
Annual required contribution	\$ 29,880

REQUIRED  
SUPPLEMENTAL  
INFORMATION

CITY OF CASPIAN  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
Year ended June 30, 2005

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH AMENDED BUDGET
Beginning Fund Balance	\$ 329,240	\$ 329,240	\$ 329,240	\$ 0
Resources (Inflows)				
Property taxes	160,000	160,000	196,970	36,970
State shared revenues and grants	166,733	166,733	168,542	1,809
Fines and forfeitures	0	0	265	265
Charges for services	75,898	75,898	75,768	(130)
Local grant	0	0	60,000	60,000
Interest and rentals	44,523	44,523	95,319	50,796
Sale of property	12,500	12,500	1,550	(10,950)
Reimbursements	0	0	1,767	1,767
Other	4,000	4,000	1,319	(2,681)
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 792,894	\$ 792,894	\$ 930,740	\$ 137,846
Charges to Appropriations (Outflows)				
General Government				
City council	\$ 2,084	\$ 2,084	\$ 2,631	\$ (547)
City manager	20,000	20,000	29,834	(9,834)
Treasurer	10,000	10,000	18,627	(8,627)
Tax administration	4,900	4,900	6,512	(1,612)
Clerk	10,000	10,000	8,168	1,832
Elections	1,500	1,500	2,729	(1,229)
Counsel	12,000	12,000	9,019	2,981
Audit	7,000	7,000	7,909	(909)
Buildings and grounds	27,000	27,000	38,008	(11,008)
Cemetery	9,000	9,000	7,976	1,024
Public Safety				
Police	59,159	59,159	77,113	(17,954)
Fire	40,000	40,000	17,854	22,146
Public Works				
General	66,000	66,000	92,392	(26,392)
Street lighting	12,000	12,000	11,371	629
Refuse collection and disposal	55,000	55,000	59,760	(4,760)
Recreation				
Community promotion	5,000	5,000	500	4,500
Parks and other	6,000	6,000	8,779	(2,779)
Employee Benefits				
Paid time off	11,936	11,936	21,004	(9,068)
Retirement	26,500	26,500	21,952	4,548
Insurance and taxes	83,064	83,064	65,347	17,717
Insurance				
General	18,500	18,500	23,217	(4,717)
TOTAL CHARGES TO APPROPRIATIONS	\$ 486,643	\$ 486,643	\$ 530,702	\$ (44,059)
BUDGETARY FUND BALANCE--ENDING	\$ 306,251	\$ 306,251	\$ 400,038	\$ 93,787

**CITY OF CASPIAN**  
**BUDGETARY COMPARISON SCHEDULE**  
**MAJOR STREET FUND**  
Year ended June 30, 2005

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Beginning Fund Balance	\$ 55,371	\$ 55,371	\$ 55,371	\$ 0
Resources (Inflows)				
State shared revenues and grants	79,635	79,635	99,048	19,413
Interest earned	<u>0</u>	<u>0</u>	<u>585</u>	<u>585</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 135,006	\$ 135,006	\$ 155,004	\$ 19,998
Charges to Appropriations (Outflows)				
Public Works				
Construction	\$ 40,000	\$ 40,000	\$ 1,201	\$ 38,799
Routine maintenance	31,500	31,500	47,179	(15,679)
Street sweeping	100	100	1,449	(1,349)
Roadside maintenance	0	0	1,183	(1,183)
Traffic services	0	0	1,200	(1,200)
Winter maintenance	7,377	7,377	55,358	(47,981)
Administration	4,615	4,615	5,459	(844)
Transfer to other funds	<u>0</u>	<u>0</u>	<u>20,100</u>	<u>(20,100)</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>83,592</u>	\$ <u>83,592</u>	\$ <u>133,129</u>	\$ <u>(49,537)</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u>51,414</u>	\$ <u>51,414</u>	\$ <u>21,875</u>	\$ <u>(29,539)</u>

**CITY OF CASPIAN**  
**BUDGETARY COMPARISON SCHEDULE**  
**LOCAL STREET FUND**  
Year ended June 30, 2005

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Beginning Fund Balance	\$ 17,372	\$ 17,372	\$ 17,372	\$ 0
Resources (Inflows)				
State shared revenues and grants	29,074	29,074	39,841	10,767
Interest earned	0	0	200	200
Transfer from other funds	<u>0</u>	<u>0</u>	<u>20,100</u>	<u>20,100</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 46,446	\$ 46,446	\$ 77,513	\$ 31,067
Charges to Appropriations (Outflows)				
Public Works				
Construction	\$ 4,000	\$ 4,000	\$ 0	\$ 4,000
Routine maintenance	44,256	44,256	37,006	7,250
Street sweeping	900	900	2,181	(1,281)
Roadside maintenance	0	0	1,060	(1,060)
Traffic services	200	200	1,711	(1,511)
Winter maintenance	9,320	9,320	16,430	(7,110)
Administration	<u>1,000</u>	<u>1,000</u>	<u>3,663</u>	<u>(2,663)</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>59,676</u>	\$ <u>59,676</u>	\$ <u>62,051</u>	\$ <u>(2,375)</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u>(13,230)</u>	\$ <u>(13,230)</u>	\$ <u>15,462</u>	\$ <u>28,692</u>

CITY OF CASPIAN  
BUDGETARY COMPARISON SCHEDULE  
TAX INCREMENTING FINANCING FUND  
Year ended June 30, 2005

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Beginning Fund Balance	\$ 36,569	\$ 36,569	\$ 36,569	\$ 0
Resources (Inflows)				
Property taxes	29,502	29,502	44,573	15,071
Interest earned	<u>0</u>	<u>0</u>	<u>43</u>	<u>43</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 66,071	\$ 66,071	\$ 81,185	\$ 15,114
Charges to Appropriations (Outflows)				
Public Works				
Capital outlay	\$ 50,368	\$ 50,368	\$ 20,757	\$ 29,611
Debt service	<u>0</u>	<u>0</u>	<u>10,257</u>	<u>(10,257)</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>50,368</u>	\$ <u>50,368</u>	\$ <u>31,014</u>	\$ <u>19,354</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u><u>15,703</u></u>	\$ <u><u>15,703</u></u>	\$ <u><u>50,171</u></u>	\$ <u><u>34,468</u></u>

CITY OF CASPIAN  
MERS PENSION FUNDING AND STATISTICS  
JUNE 30, 2005

SCHEDULE OF FUNDING PROGRESS

<u>ACTUARIAL VALUATION DATE</u>	<u>ACTUARIAL VALUE OF ASSETS</u>	<u>ACTUARIAL ACCRUED LIABILITY</u>	<u>UNFUNDED AAL (UAAL)</u>	<u>FUNDED RATIO</u>	<u>COVERED PAYROLL</u>	<u>UAAL AS A PERCENTAGE OF COVERED PAYROLL</u>
31-Dec-02	403,681	593,154	189,473	68%	188,769	100%
31-Dec-03	435,291	646,360	211,069	67%	195,194	108%
31-Dec-04	464,711	680,115	215,404	68%	190,407	113%

SCHEDULE OF EMPLOYER CONTRIBUTIONS:

<u>YEAR ENDED</u>	<u>ANNUAL REQUIRED CONTRIBUTION</u>	<u>PERCENTAGE CONTRIBUTED</u>
31-Dec-02	26,437	100%
31-Dec-03	27,940	100%
31-Dec-04	28,632	100%

THE INFORMATION PRESENTED ABOVE WAS DETERMINED AS PART OF THE ACTUARIAL VALUATION AT THE DATES INDICATED. ADDITIONAL INFORMATION AS OF THE LATEST ACTUARIAL VALUATION IS AS FOLLOWS:

ACTUARIAL COST METHOD	ENTRY AGE NORMAL
AMORTIZATION METHOD	LEVEL PERCENTAGE OF PAYROLL
AMORTIZATION PERIOD	30 YEARS, OPEN
ASSET VALUATION METHOD	5 YEAR SMOOTHED MARKET
ACTUARIAL ASSUMPTIONS	
INVESTMENT RATE OF RETURN	8.00%
PROJECTED SALARY INCREASES*	4.5% - 12.90%
*INCLUDES MERIT AND LONGEVITY INCREASES	0% - 8.40%
INFLATION	3% - 4%
COST OF LIVING ADJUSTMENTS	2.00%
OTHER	1994 GROUP MORTALITY TABLE

ADDITIONAL  
INFORMATION



**CITY OF CASPIAN**  
**COMPARATIVE BALANCE SHEET**  
**WATER SUPPLY SYSTEM FUND**  
June 30, 2005 and 2004

ASSETS	2005	2004
Current Assets:		
Cash	\$ 95,385	\$ 70,745
Accounts receivable	<u>17,525</u>	<u>21,568</u>
TOTAL CURRENT ASSETS	\$ 112,910	\$ 92,313
Restricted Assets - bond and interest redemption and bond reserve	\$ 80,825	\$ 73,698
Property and Equipment:		
Property and equipment	\$ 3,259,446	\$ 3,255,134
Less accumulated depreciation	<u>(721,020)</u>	<u>(634,428)</u>
NET PROPERTY AND EQUIPMENT	\$ <u>2,538,426</u>	\$ <u>2,620,706</u>
TOTAL ASSETS	\$ <u><u>2,732,161</u></u>	\$ <u><u>2,786,717</u></u>
LIABILITIES AND FUND EQUITY		
Current Liabilities:		
Account payable	\$ 8	\$ 4,145
Accrued payroll	357	301
Accrued interest	19,275	19,575
Current portion of long-term debt	<u>16,000</u>	<u>16,000</u>
TOTAL CURRENT LIABILITIES	\$ 35,640	\$ 40,021
Long-Term Debt:		
Revenue bonds	\$ 1,028,000	\$ 1,044,000
Less current portion included above	<u>(16,000)</u>	<u>(16,000)</u>
TOTAL LONG-TERM DEBT	\$ <u>1,012,000</u>	\$ <u>1,028,000</u>
TOTAL LIABILITIES	\$ 1,047,640	\$ 1,068,021
FUND EQUITY		
Contributed Capital:		
Federal (net of amortization)	\$ 1,517,449	\$ 1,580,022
Retained earnings:		
Reserved	\$ 80,825	\$ 73,698
Unreserved - undesignated	<u>86,247</u>	<u>64,976</u>
TOTAL RETAINED EARNINGS	\$ <u>167,072</u>	\$ <u>138,674</u>
TOTAL FUND EQUITY	\$ <u>1,684,521</u>	\$ <u>1,718,696</u>
TOTAL LIABILITIES AND FUND EQUITY	\$ <u><u>2,732,161</u></u>	\$ <u><u>2,786,717</u></u>

CITY OF CASPIAN  
**COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS**  
**WATER SUPPLY SYSTEM FUND**  
**Years ended June 30, 2005 and 2004**

	<u>2005</u> <u>Actual</u>	<u>2004</u> <u>Actual</u>	<u>Variance</u> <u>Favorable</u> <u>(Unfavorable)</u>
<b>OPERATING REVENUES</b>			
Charges for services:			
Customer sales	\$ 148,860	\$ 147,462	\$ 1,398
Water taps and other services	2,009	1,931	78
State grants	<u>3,625</u>	<u>0</u>	<u>3,625</u>
<b>TOTAL OPERATING REVENUES</b>	<b>\$ 154,494</b>	<b>\$ 149,393</b>	<b>\$ 5,101</b>
<b>OPERATING EXPENSES</b>			
Wages	\$ 20,630	\$ 35,615	\$ 14,985
Employee benefits	17,308	28,237	10,929
Supplies	4,041	18,312	14,271
Purchased services	8,007	8,122	115
Equipment rental	888	5,103	4,215
Utilities	5,786	7,052	1,266
Other	777	856	79
Depreciation	<u>86,593</u>	<u>86,161</u>	<u>(432)</u>
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 144,030</b>	<b>\$ 189,458</b>	<b>\$ 45,428</b>
<b>OPERATING INCOME</b>	<b>\$ 10,464</b>	<b>\$ (40,065)</b>	<b>\$ 50,529</b>
<b>NON-OPERATING REVENUE (EXPENSE)</b>			
Interest income	\$ 2,039	\$ 2,166	\$ (127)
Interest expense	<u>(46,680)</u>	<u>(47,348)</u>	<u>668</u>
<b>TOTAL NON-OPERATING REVENUE (EXPENSE)</b>	<b>\$ (44,641)</b>	<b>\$ (45,182)</b>	<b>\$ 541</b>
<b>NET INCOME</b>	<b>\$ (34,177)</b>	<b>\$ (85,247)</b>	<b>\$ <u>51,070</u></b>
Add depreciation of fixed assets acquired by capital grants that reduces contributed capital from grants	62,575	62,575	
Retained Earnings - beginning	<u>138,674</u>	<u>161,346</u>	
<b>RETAINED EARNINGS - ENDING</b>	<b>\$ <u>167,072</u></b>	<b>\$ <u>138,674</u></b>	

CITY OF CASPIAN  
STATEMENT OF CASH FLOWS  
WATER SUPPLY SYSTEM FUND  
Years ended March 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 154,912	\$ 151,747
Operating grant	3,625	0
Payments to suppliers	(23,636)	(35,537)
Payments to or on behalf of employees	(37,882)	(64,678)
Internal activity-loan repaid by other funds	<u>0</u>	<u>1,592</u>
<b>TOTAL CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>\$ 97,019</b>	<b>\$ 53,124</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Principal paid on capital debt	\$ (16,000)	\$ (14,000)
Interest paid on revenue bonds	(46,980)	(47,610)
Purchases of capital assets	(4,311)	0
Funding of restricted accounts	<u>(7,127)</u>	<u>(6,781)</u>
<b>TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>\$ (74,418)</b>	<b>\$ (68,391)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES - Interest</b>	<b>\$ <u>2,039</u></b>	<b>\$ <u>2,166</u></b>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>\$ 24,640</b>	<b>\$ (13,101)</b>
Cash and equivalents - beginning	<u>70,745</u>	<u>83,846</u>
<b>CASH AND EQUIVALENTS - ENDING</b>	<b>\$ <u><u>95,385</u></u></b>	<b>\$ <u><u>70,745</u></u></b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Operating income (loss)	\$ 10,464	\$ (40,065)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities		
Depreciation	86,593	86,161
Change in Assets and Liabilities		
Receivables - net	4,043	2,354
Due from other fund	0	1,592
Accounts payable	(4,137)	3,908
Accrued payroll	56	(826)
Accrued interest payable	<u>(300)</u>	<u>0</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ <u><u>96,719</u></u></b>	<b>\$ <u><u>53,124</u></u></b>

# SCOTT R. KENNEY

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INDEPENDENT AUDITOR'S REPORT ON  
COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
IN ACCORDANCE WITH GOVERNMENTAL AUDITING STANDARDS

The Honorable Mayor and Council  
City of Caspian  
Caspian, MI 49915

I have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Caspian, Michigan (City) as of and for the year ended June 30, 2005, which collectively comprise the City of Caspian, Michigan's basic financial statements and have issued my report thereon dated July 29, 2005. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States.

COMPLIANCE

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing my audit, I considered the City's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be

detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses. However, I noted other matters involving the internal control over financial reporting that I have reported to the management of the City in a separate letter dated July 29, 2005.

This report is intended solely for the information and use of the audit committee, management, City Council and federal awarding agencies and is not intended to be and should not be used by anyone other than those specified parties.

  
Certified Public Accountant

July 29, 2005

# SCOTT R. KENNEY

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City Council  
City of Caspian  
301 East Caspian Avenue  
Caspian, MI 49915

In conjunction with the audit of the general purpose financial statements of the City of Caspian (City) as of and for the year ended June 30, 2005, I have reviewed the City's accounting policies and procedures and systems of internal control. My audit was conducted primarily to enable me to formulate an opinion on the City's financial statements and accordingly, would not disclose all weaknesses in the system which may exist. My review disclosed certain areas in which I believe more effective internal control or increased efficiency may be achieved. This letter is intended to summarize my findings and present my overall conclusions and recommendations. It has been prepared solely for the information of the City Council and management and should not be presented or quoted to anyone outside of the City because of the possibility of misunderstanding by other persons who may not be aware of the objectives and limitations of internal controls and my study and evaluation thereof. The first comment is repeated from the prior year's letter of comments and recommendations.

1. **OBSERVATION** - Even though the City increased its sewer rates during the fiscal year, retained earnings in that fund continued to degrade to only \$6,752 as of the end of the year.

**RECOMMENDATION** - I recommend that the City increase its charges for the sewer collections in addition to the increase that has already been approved. This will allow the City to earn adequate revenues to cover all of its costs (show a profit). If an increase is not enacted by the Council, the fund will likely fall into a deficit during the forthcoming year in violation of state law.

2. **OBSERVATION** - Pay increases for non-contract employees were not approved by the City Council.

**RECOMMENDATION** - I recommend that the City Council approve all pay rates for employees.

3. **OBSERVATION** - During the 2003-2004 fiscal year, the City paid off its fire truck debt and approximately \$18,000 of the debt belonging to the fire department and fire authority. No payments have been made to the City on this obligation as of the audit date.

**RECOMMENDATION** - I recommend that a repayment schedule be agreed upon by the City and the fire department for the settlement of this obligation.

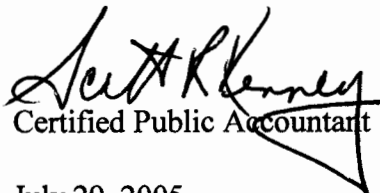
4. **OBSERVATION** - The City uses a credit card for some purchases, travel and other necessary expenses that must be paid upon incurrence. As of the end of the fiscal year, the City did not have a credit card policy adopted by the Board. In addition, receipts in support of the items paid with the credit card were not being maintained.

**RECOMMENDATION** - I recommend that the City adopt a credit card policy in conformance with state statute. In addition, I recommend that each credit card transaction be supported with the appropriate receipt from the payee.

Subsequent to the end of the fiscal year, the City developed a credit card policy that is being presented to the City Council for their approval.

I would like to thank the City for allowing me to conduct the audit of the financial statements and I would especially like to thank Rich and Sandy for their assistance during the audit.

If the City would like my assistance in implementing any of the above recommendations or would like to discuss any of these items further, I am willing to assist you in any way that I can.

  
Certified Public Accountant

July 29, 2005